



SMALL CAP OPPORTUNITIES FUND

THE MANAGER'S COMMENTARY – NOVEMBER 2020

Fellow Unitholders,

We had an early holiday wish come true in November. The Pender Small Cap Opportunities Fund had its highest monthly return in history¹ – a whopping 19%² for the month, ahead of the S&P 500 Index (CAD) with 8.1% and the S&P/TSX Composite Index with a 10.6% return. We hope there are more months like this to come. On a YTD basis (as of November 30, 2020), Pender Small Cap Opportunities Fund gained 28.2%² compared to the S&P 500 Index (CAD) which gained 14.0% and the S&P/TSX Composite Index's 3.8%.

Portfolio Update

Compared to October, when we were unusually active in repositioning the portfolio, we only tweaked the portfolio, increasing and decreasing around the edges but not making any major changes in November.

Most of our holdings in the portfolio had positive returns in November and we do not have any significant detractors to highlight in this commentary. On the positive side, Aviat Networks, Inc. (AVNW), PAR Technology Corporation (PAR), MAV Beauty Brands Inc. (MAV), and Dye & Durham Ltd. (DND) were among the top contributors. AVNW reported strong Q3 results in early November. Their growth trajectory led to their share price doubling in the month from \$18.51 on October 30 to \$36.12 on November 30. PAR, a leading enterprise restaurant POS (Point of Sale) software provider, is gaining momentum and benefiting from the massive tailwinds caused by the sudden need to digitize the restaurant industry. We believe PAR's CEO, Savneet Singh, is a very capable capital allocator and there remains plenty of upside for PAR. MAV is one of the top holdings in Pender Small Cap Opportunities Fund. Not so long ago it was a busted IPO with a dislocated valuation, but it has delivered consistent results over the past few quarters and in August the stock started to run up. We are still fond of the stock for its capital light business model with high free cash flow conversion and the potential to be acquired. DND is another core holding across several funds managed by Pender. It recently announced a sizable acquisition in Australia as well as DoProcess LP in Canada, providing diversification to DND's revenue base. DND has made incredible progress since its IPO in July. At the time of writing (Dec 15) it had reached a high of \$44.33, nearly six times its IPO price of \$7.50. We think there's room on the balance sheet for further M&A activities for DND.

Throwing away the broken record

For the tide to have turned in favour of small caps during October, after such a long time in the investing wilderness, was wonderful, and the resurgence has continued into December. For the first time in a long time we are seeing more retail investors participating in the continued upside in small cap land. We believe we can finally change that tired old broken record now.

Whenever a long-term trend reverses, we have to wonder if it can be sustained. With all our belief that this day would come, we are still in the early days of the small cap recovery, but market history tells us

¹ Fund inception – June 2009

² F class units; PenderFund

that *usually* these swings don't just last for one or two quarters. And whatever the big picture is for small cap markets, how can we protect the recent gains in the Pender Small Cap Opportunities Fund?

There are several themes that we want to pick up on.

We have talked about the M&A market in previous commentaries, but it's worth repeating that M&A activity was only paused during the early months of the pandemic. It was not cancelled completely. COVID put the brakes on, but the "animal spirits" are returning to M&A, and buyers, sellers and deal makers are now scrambling to make up for lost time. Take outs have been a meaningful driver of returns in the Fund over the years, with an average of about six per year since 2010. So far in 2020 we have only had two, and we are optimistic that 2021 could be a catch-up year.

Another theme is small cap earnings performance. Across markets there were winners, losers and companies that slowed but survived. While many of the small caps that we own have done well, many others didn't. We believe there are many small cap companies still on their path to recovery and that with the renewed optimism of a vaccine we are on the verge of seeing strong earnings momentum for these companies.

In addition, there is sustained interest in stocks in the IPO pipeline, which is robust, and thanks to our long-standing involvement in the private technology segment, we are well connected to participate in these go public events when we see the right opportunity. Having bought into DND back in July, we have also participated in BIGG Digital Assets Inc. (BIGG) and WeCommerce Holdings Ltd. (WE), which we will expand upon next month.

It's too soon to talk about which innings we are in with small caps and their resurgence, but we believe that the Fund is well positioned at this point to capture both short-term momentum and long-term gains.

David Barr, CFA
December 16, 2020



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